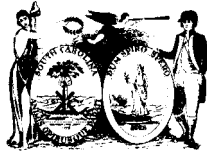


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

October 18, 2001

Ms. Suzanne Clayton, Financial Services Manager
Beverly Healthcare
One Thousand Beverly Way
Fort Smith, Arkansas 72919

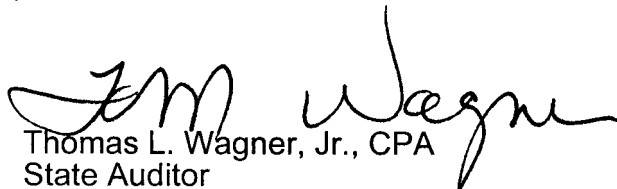
Re: AC# 3-ANH-J8 – Beverly Enterprises – South Carolina, Inc.
d/b/a Aiken Nursing Home

Dear Ms. Clayton:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes
Mr. Richard C. Cooke

**BEVERLY ENTERPRISES – SOUTH CAROLINA, INC.
D/B/A AIKEN NURSING HOME**

AIKEN, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-ANH-J8**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 19, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Beverly Enterprises – South Carolina, Inc. d/b/a Aiken Nursing Home, for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

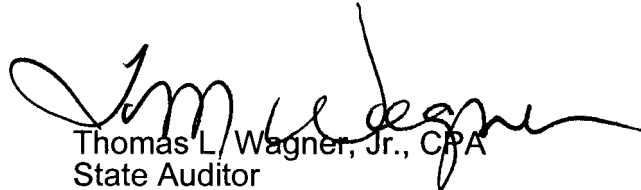
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Beverly Enterprises – South Carolina, Inc. d/b/a Aiken Nursing Home, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Beverly Enterprises – South Carolina, Inc. d/b/a Aiken Nursing Home dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
June 19, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

BEVERLY ENTERPRISES - SOUTH CAROLINA, INC. D/B/A AIKEN NURSING HOME

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-ANH-J8

Interim reimbursement rate (1)	\$89.69
Adjusted reimbursement rate	<u>88.71</u>
Decrease in reimbursement rate	<u><u>\$.98</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

BEVERLY ENTERPRISES - SOUTH CAROLINA, INC. D/B/A AIKEN NURSING HOME
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 1999 Through September 30, 2000
 AC# 3-ANH-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$39.84	\$47.61	
Dietary		8.78	10.24	
Laundry/Housekeeping/Maint.		<u>8.58</u>	<u>8.89</u>	
Subtotal	\$ <u>4.67</u>	57.20	66.74	\$57.20
Administration & Med. Records	\$ <u>-</u>	<u>12.20</u>	<u>11.39</u>	<u>11.39</u>
Subtotal		69.40	<u>\$78.13</u>	68.59
<u>Costs Not Subject to Standards:</u>				
Utilities		2.98		2.98
Special Services		.56		.56
Medical Supplies & Oxygen		2.23		2.23
Taxes and Insurance		2.15		2.15
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$77.32</u>		76.51
Inflation Factor (3.00%)				2.30
Cost of Capital				7.91
Cost of Capital Limitation				(.99)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.67
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.92)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>.48</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$88.71</u>

BEVERLY ENTERPRISES - SOUTH CAROLINA, INC. D/B/A AIKEN NURSING HOME

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-ANH-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,212,658	\$ 417 (2)	\$ -	\$1,213,075
Dietary	269,893	-	2,530 (2)	267,363
Laundry	57,220	-	-	57,220
Housekeeping	138,631	-	-	138,631
Maintenance	65,466	-	-	65,466
Administration & Medical Records	371,388	-	-	371,388
Utilities	90,679	-	-	90,679
Special Services	62,584	-	45,457 (3)	17,127
Medical Supplies & Oxygen	68,266	-	227 (2)	68,039
Taxes and Insurance	65,603	-	-	65,603
Legal Fees	-	-	-	-
Cost of Capital	191,160	11,218 (1) <u>38,377 (4)</u>	-	240,755
Subtotal	2,593,548	50,012	48,214	2,595,346
Ancillary	(829)	-	-	(829)
Non-Allowable	274,495	2,340 (2) <u>45,457 (3)</u>	11,218 (1) <u>38,377 (4)</u>	272,697
Total Operating Expenses	<u>\$2,867,214</u>	<u>\$97,809</u>	<u>\$97,809</u>	<u>\$2,867,214</u>
Total Patient Days	<u>30,448</u>	<u>-</u>	<u>-</u>	<u>30,448</u>
Total Beds	<u>86</u>			

BEVERLY ENTERPRISES - SOUTH CAROLINA, INC. D/B/A AIKEN NURSING HOME

Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-ANH-J8

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 2,658	
	Accumulated Depreciation	16,488	
	Cost of Capital	11,218	
	Nonallowable		\$ 11,218
	Other Equity		19,146
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nursing	417	
	Nonallowable	2,340	
	Dietary		2,530
	Medical Supplies and Oxygen		227
	To disallow expenses not adequately documented HIM-15-1, Section 2304		
3	Nonallowable	45,457	
	Special Services		45,457
	To adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		
4	Cost of Capital	38,377	
	Nonallowable		38,377
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$116,955</u>	<u>\$116,955</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

BEVERLY ENTERPRISES - SOUTH CAROLINA, INC. D/B/A AIKEN NURSING HOME

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-ANH-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>86</u>
Deemed Asset Value	3,021,180
Improvements Since 1981	1,128,860
Accumulated Depreciation at 9/30/98	(<u>1,328,029</u>)
Deemed Depreciated Value	2,822,011
Market Rate of Return	<u>.063</u>
Total Annual Return	177,787
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	177,787
Depreciation Expense	62,992
Amortization Expense	84
Capital Related Income Offsets	(108)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	240,755
Total Patient Days (Minimum 97% Occupancy)	<u>30,448</u>
Cost of Capital Per Diem	\$ <u><u>7.91</u></u>

BEVERLY ENTERPRISES - SOUTH CAROLINA, INC. D/B/A AIKEN NURSING HOME

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-ANH-J8

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$2.93
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>6.92</u>
Reimbursable Cost of Capital Per Diem	\$6.92
Cost of Capital Per Diem	<u>7.91</u>
Cost of Capital Per Diem Limitation	\$ <u>(.99)</u>

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